



Independent Stock Idea

January 29, 2009

rating: hold
s&p 500: 845

Imperial Oil (IMO) Extra Price Sensitivity in Heavy Oil

<i>Symbol</i>	IMO	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$mm)</i>	3,100
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	8
<i>Price (US\$/sh)</i>	31.86	<i>Natural Gas and Oil Production/Ebitda (%)</i>	74
<i>Pricing Date</i>	1/29/09	<i>Adjusted Reserves/Production NTM</i>	14.7
<i>Shares (mm)</i>	872	<i>EV/Ebitda</i>	9.8
<i>Market Capitalization (US\$mm)</i>	27,800	<i>PV/Ebitda</i>	14.4
<i>Debt (US\$mm)</i>	2,200	<i>Undeveloped Reserves (%)</i>	28
<i>Enterprise Value (EV) (US\$mm)</i>	30,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	23.60
<i>Present Value (PV) (US\$mm)</i>	44,000	<i>Present Value Proven Reserves(US\$/boe)</i>	19.94
<i>Net Present Value (US\$/share)</i>	48	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.32
<i>Debt/Present Value</i>	0.05	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.77
<i>McDep Ratio - EV/PV</i>	0.68	<i>Price/Earnings Next Twelve Months</i>	18
<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

Estimated Net Present Value (NPV) of \$48 a share is 50% higher than stock price for low-debt, hold-rated **Imperial Oil (IMO)**. Released today, fourth quarter results displayed a greater-than-expected reduction in unlevered cash flow (Ebitda) relative to crude oil and natural gas prices (see table Next Twelve Months Operating and Financial Estimates). In situ oil sands production at Cold Lake, Imperial's highest volume oil area, may have had higher expense with lower volume between phases of cyclic steaming (see table Oil Production and Revenue). Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil, and to an industry multiple for downstream. Latest calculations result in NPV concentrated 5% on natural gas, 79% on oil and 16% on downstream (see table Functional Cash Flow and Present Value). A seemingly high cash flow multiple for oil reflects long-life and conservative reporting of proven reserves among other factors. Pointing to expected oil price recovery, futures prices for the next six years averaged US\$62 a barrel recently (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures).

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Imperial Oil Limited									
Next Twelve Months Operations									
(Canadian Dollars)									
									Next Twelve Months
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	
	12/31/07	9/30/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	12/31/09
Volume									
Natural Gas (mmcf)	345	248	239	249	239	239	239	239	239
Days	92	92	92	366	90	91	92	92	365
Oil (mbd)	221	210	224	213	232	207	217	229	221
Total gas & oil (bcf)	154	139	146	558	147	135	142	148	572
Total gas & oil (mbd))	279	251	264	254	272	246	257	269	261
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	9.04	5.03	4.62	4.93	5.73	5.08
Currency (US\$/C\$)	1.02	0.96	0.82	0.94	0.82	0.82	0.82	0.82	0.82
Henry Hub (C\$/mmbtu)	6.84	10.66	8.53	9.61	6.16	5.67	6.04	7.02	6.22
Canada (C\$/mcf)	6.33	9.20	7.31	8.67	5.28	4.86	5.18	6.02	5.34
Oil (\$/bbl)									
WTI Cushing	90.67	117.99	58.45	99.59	44.74	49.86	52.65	54.65	50.48
WTI Cushing (C\$/bbl)	88.91	122.77	71.67	104.52	54.86	61.14	64.57	67.01	61.89
Worldwide	48.48	110.68	54.22	88.97	42.83	48.88	52.38	50.03	48.48
Total gas & oil (\$/mcf)	7.72	16.93	8.78	13.94	6.87	7.62	8.18	7.99	7.66
NY Harbor 3-2-1 (\$/bbl)	8.19	11.84	5.10	9.86	7.57	7.78	6.23	3.44	6.26
Revenue (\$mm)									
Natural Gas	201	210	161	858	114	106	114	132	466
Oil	986	2,138	1,117	6,921	896	919	1,045	1,054	3,914
Other	5,553	7,167	4,664	23,800	4,664	4,664	4,664	4,664	18,656
Total	6,740	9,515	5,942	31,579	5,674	5,688	5,823	5,850	23,035
Expense									
	1,570	2,868	1,677	9,198	865	874	998	1,015	8,339
Ebitda (\$mm)									
Exploration and Production	871	1,659	596	4,715	636	645	730	747	2,759
Other	383	520	399	1,419	228	228	268	268	993
Total Ebitda	1,253	2,179	995	6,134	865	874	998	1,015	3,752
Exploration	16	34	41	132	41	41	41	10	133
Deprec., Deplet., & Amort.	188	188	178	728	178	178	178	178	712
Other non cash				-					-
Ebit									
	1,049	1,957	776	5,274	646	655	779	827	2,907
Interest	3	1	2	-	2				2
Ebt									
	1,046	1,956	774	5,274	644	655	779	827	2,905
Income Tax	168	568	111	1,398	225	229	273	290	1,017
Net Income (\$mm)									
Exploration and Production	739	999	336	2,923					
Other	241	308	285	896					
Unallocated	(102)	81	42	57					
Total	878	1,388	663	3,876	418	426	507	538	1,888
Shares (millions)									
	915	884	872	889	872	872	872	872	872
Earnings per share (\$)	0.96	1.57	0.76	4.36	0.48	0.49	0.58	0.62	2.17
Ebitda Margin (E&P)	73%	71%	47%	61%	63%	63%	63%	63%	63%
Tax Rate	16%	29%	14%	27%	35%	35%	35%	35%	35%



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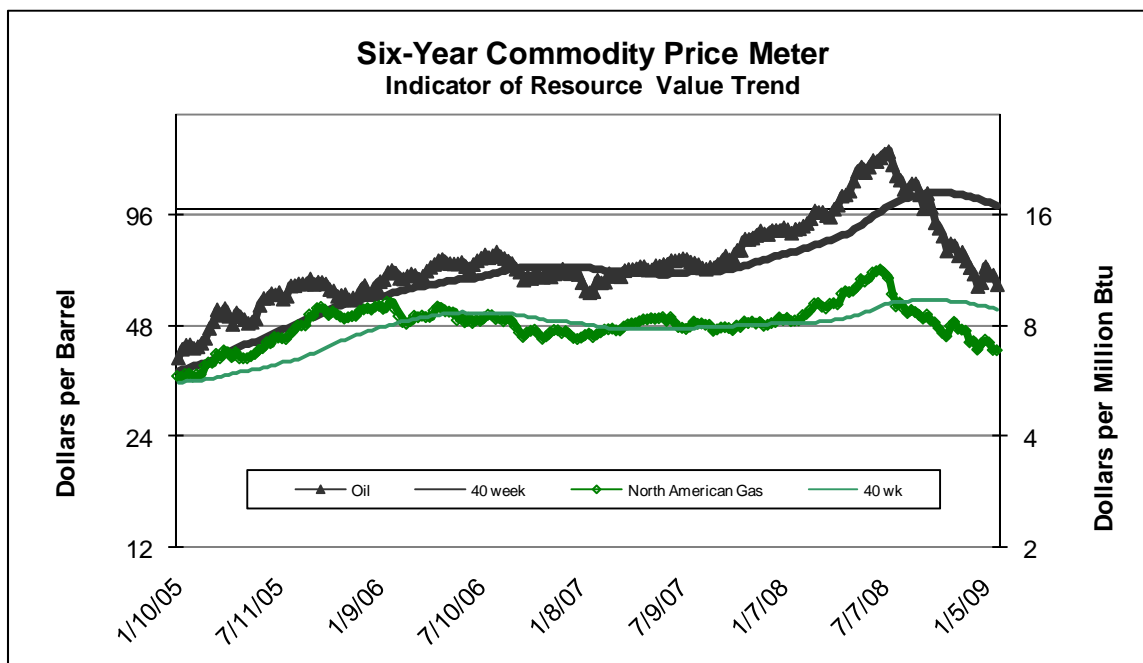
Imperial Oil Limited									
Oil Production and Revenue									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Twelve</i>
	<i>12/31/07</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>Months</i>
									<i>12/31/09</i>
Volume									
Days	92	92	92	366	90	91	92	92	365
Oil (mmb)									
Conventional	1.9	1.8	1.8	7	1.8	1.8	1.8	1.8	7
Cold Lake	12.6	10.8	11.9	45	11.8	10.7	10.8	11.9	45
Syncrude	6.2	6.1	6.3	23	6.7	5.6	6.7	6.7	26
Natural Gas Liquids	0.8	0.6	0.6	3	0.6	0.6	0.6	0.6	3
Total Oil	21.5	19.3	20.6	78	20.9	18.8	20.0	21.1	81
Oil (mbd)									
Conventional	21	20	20	20	20	20	20	20	20
Cold Lake	137	117	129	124	131	118	117	129	124
Syncrude	67	66	68	62	74	62	73	73	70
Natural Gas Liquids	9	7	7	7	7	7	7	7	7
Total Oil	234	210	224	213	232	207	217	229	221
Price									
Currency (US\$/C\$)	1.02	0.96	0.83	0.94	0.82	0.82	0.82	0.82	0.82
Oil (C\$/bbl)									
Light, Sweet (US\$/bbl)	90.67	117.99	58.45	99.59	44.74	49.86	52.65	54.65	50.48
Light, Sweet (C\$/bbl)	88.91	122.77	70.62	104.25	54.86	61.14	64.57	67.01	61.89
Conventional	81.25	114.58	56.75	95.52	44.09	49.13	51.88	53.85	49.77
Cold Lake (Hardisty)	56.60	104.90	48.95	82.89	38.95	45.85	49.07	43.56	44.22
Syncrude (Par Edmonton)	87.51	123.19	64.55	102.19	50.15	55.88	59.01	61.25	56.60
Natural Gas Liquids	57.80	78.21	43.61	62.30	33.88	37.75	39.87	41.38	38.25
Total Oil	67.71	110.68	54.22	88.97	42.83	48.88	52.38	50.03	48.48
Ratio: Cold Lake/Light Swt	0.64	0.85	0.69	0.80	0.71	0.75	0.76	0.65	0.71
Revenue (C\$mm)									
Conventional	157	211	104	691	79	89	95	99	363
Cold Lake	713	1,129	581	3,754	459	492	528	517	1,997
Syncrude	539	748	404	2,311	336	313	396	411	1,456
Natural Gas Liquids	48	50	28	165	21	24	26	27	98
Total Oil	1,458	2,138	1,117	6,921	896	919	1,045	1,054	3,914



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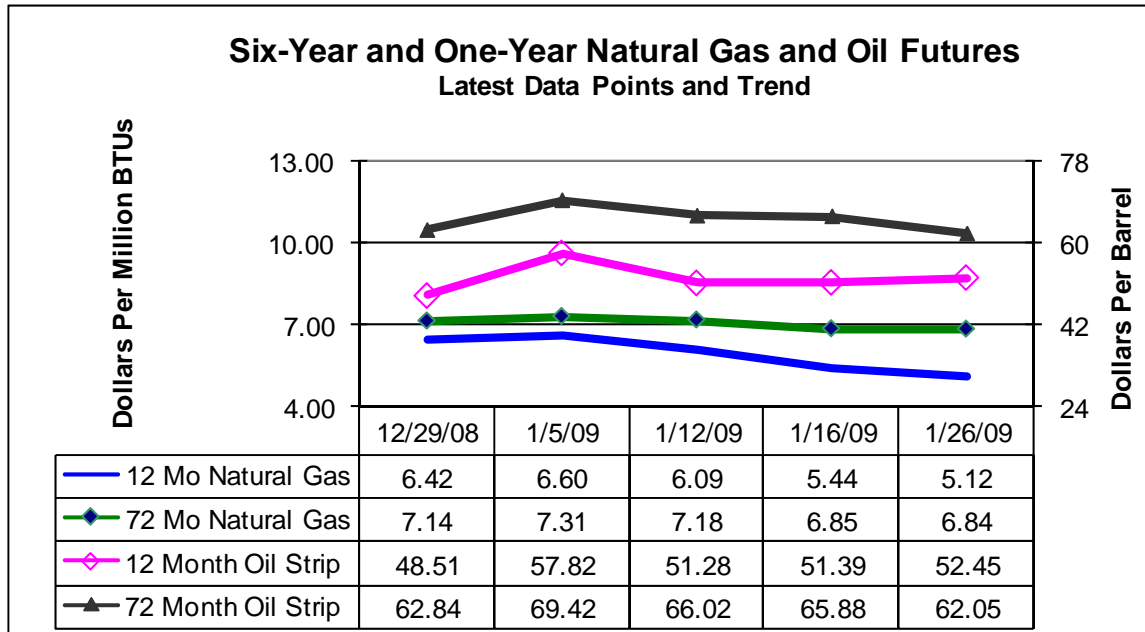
Imperial Oil Limited					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	176	6.7	11.9	2,100	5%
Syncrude	586	30.0	24.9	14,600	33%
Oil - Conventional and Cold Lake	1,488	12.4	13.7	20,400	46%
Downstream	810		8.6	7,000	16%
	3,060	14.7	14.4	44,100	100%
Debt (US\$mm)					2,200
Net Present Value (US\$mm)					41,900
Shares (mm)					872
Net Present Value - Standard Estimate (US\$/sh)					48
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					36





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