

Exxon Mobil Corporation (XOM - 81) Standard Oil Valuation

Summary and Recommendation

We believe the shares of Exxon Mobil Corporation are attractive for current purchase because the stock appears to offer better relative value in the energy field than it has for some time. Statistically attractive energy stocks usually have McDep Ratios below 1.0. We don't recall Exxon ever being below 1.0, yet it has been a good long-term performer. While Exxon's current rating is near 1.1, its McDep Ratio two years ago was near 1.5. Since then Exxon's stock price has been practically flat while the energy business has become much stronger. Meanwhile no company in any industry has the long-term record of the world's most profitable company. Only General Electric among all corporations was a top profit generator for many decades along with Exxon and is still a top profit generator today. While we added Exxon to our research coverage mainly as a point of comparison for other stocks, we are also happy to recommend a solid company.

Unconventional, but Sound Valuation Approach

A strength that Exxon emphasizes is its high return on capital employed. The idea is valid, but we are skeptical of stated results because they are tied to conventional historical accounting costs that often have little meaning in the oil and gas industry. Too much of apparently favorable financial performance may simply reflect some great oil and gas fields discovered long ago that have little or no cost basis in today's accounting statements. Exxon is rich in such properties.

As a result we emphasize cash flow in measuring current progress and in projecting future performance. We can be reasonably sure that current cash flow is not distorted by historical accounting. As for projecting that cash flow to measure how much value can be generated, there is still unavoidable subjectivity. Nonetheless we use a framework that fits together and produces a bottom line present value of equity of \$71.50 per share assuming future commodity prices at latest closing trades (see Table XOM-1 through Table XOM-2).

Largest Producer in North American Natural Gas

Though Exxon Mobil is the biggest player in our favorite business, it has only about \$26 billion (9%) in NAM Gas of \$291 billion of total present value for the company. Our estimated cash flow multiple for that business, PV/EBITDA 2001, is surprisingly low at

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4.2 times as a result of a deduction for current taxes and the fact that futures prices fall off rapidly after 2001 (see Table XOM-1A).

Huge Producer of Oil and Overseas Natural Gas

Tied to oil, sometimes with a lag, overseas natural gas production is closer to international oil in profit characteristics than to natural gas in the U.S. and Canada. Together the remaining energy resource businesses of Exxon account for \$104 billion (36%) of total present value for the company. The PV/EBITDA multiple at 4.7 years also seems somewhat low because the company pays high cash taxes and oil price drops off after 2001 (see Table XOM-1B). Since we believe that futures prices for oil are too low, we think that both NAM Gas and Oil and OS Gas values can be higher.

Industrial Businesses Sensitive to Small Changes

Oil Refining/Marketing, Chemicals and Power, the downstream businesses, account for the remaining \$161 billion (55%) of present value. That much value in one table inevitably entails simplification (see Table XOM-1C). In modeling the industrial businesses in similar fashion to the energy producing businesses we find that the calculation is especially sensitive to price inflation. With cash flow as a much smaller share of revenue, small changes in prices or costs have more of an impact on value than in the resource business. The PV/EBITDA multiple at 10.3 years seems high, but not so compared to leading companies in other industries. We may modify our estimate for industrial businesses as we add more large energy stocks to our coverage. In the end we take comfort that Exxon management has a long record of effective reinvestment in strategic projects and control of costs.

Non-Cash Charges Estimated Roughly

Estimating 2001 cash flow also requires some simplifications for a complex company. While Exxon breaks out earnings quarterly by function and special factors, cash flow information is less detailed. Moreover cash flow items tend to be overstated for companies where Exxon reports 100% of operating results even though it may own less than 100% as with Imperial Oil, one of its Canadian holdings. Conversely cash flow items are understated for companies where Exxon reports little to none of operating results even though it may own as much as 50% of the entity. As a result many of the lines in our quarterly income model are estimated as we try to present a consistent picture that can be compared to that for other stocks in our valuation framework (see Table XOM-2).

Kurt H. Wulff, CFA

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Table XOM-1
Exxon Mobil Corporation
Present Value
(\$billions)

Capex/Cash Flow (%):	35	U.S. TIPS Inflation (%/yr):	1.7
Discount rate (%/yr):	6.7	U.S. 10 Year Yield (%/yr):	5.3
Debt:	40		
PV Equity (\$/share)	71.50	PV/EBITDA 2001:	6.7

Year	Revenue				Cash Flow				Disc Factor	Present Value
	NAm Gas	OS Gas	Ind Bus	Total	NAm Gas	OS Gas	Ind Bus	Total		
Total 2001 through 2030	121	725	6311	7157	53	199	346	598	0.49	291
2001	8	40	196	243	3	11	7	22	0.97	21
2002	6	34	199	239	2	9	8	20	0.91	18
2003	5	32	202	239	2	8	9	19	0.85	16
2004	4	31	205	240	2	8	9	19	0.80	15
2005	4	31	208	243	2	8	10	20	0.75	15
2006	4	30	211	245	2	8	11	20	0.70	14
2007	5	31	214	249	2	8	12	21	0.66	14
2008	5	31	217	253	2	8	13	22	0.61	14
2009	5	32	220	256	2	8	13	23	0.58	13
2010	5	33	223	260	2	8	14	24	0.54	13
2011	5	33	226	264	2	9	15	25	0.51	13
2012	5	34	229	268	2	9	16	27	0.47	13
2013	5	34	233	272	2	9	17	28	0.44	12
2014	5	35	236	276	2	9	17	29	0.42	12
2015	6	35	239	280	2	10	18	30	0.39	12
2016	5	33	243	280	3	13	19	35	0.37	13
2017	5	30	246	281	3	11	20	34	0.34	12
2018	4	27	250	282	2	10	21	33	0.32	11
2019	4	25	254	283	2	8	22	32	0.30	10
2020	3	23	257	284	2	7	23	32	0.28	9
2021	3	21	240	265	2	6	28	36	0.26	10
2022	3	19	225	247	2	5	22	29	0.25	7
2023	3	18	210	230	1	4	17	22	0.23	5
2024	2	16	196	215	1	3	11	16	0.22	3
2025	2	15	183	201	1	2	6	10	0.20	2
2026	2	0	171	173	1	0	2	3	0.19	0
2027	2	0	160	162	1	0	-3	-2	0.18	0
2028	2	0	150	151	1	0	-7	-6	0.17	-1
2029	2	0	140	141	1	0	-11	-10	0.16	-2
2030	1	0	131	132	0	0	-14	-14	0.15	-2

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Table XOM-1A
Exxon Mobil Corporation
Present Value North American Natural Gas

Volume Decline (%/yr):	11	Price Escalation Post 2006 (%/yr):	2.5
Volume Enhancement (%/yr):	11	Discount rate (%/yr):	6.7
Capex/Cash Flow (%):	35	U.S. TIPS Inflation (%/yr):	1.7
Variable Cost (%):	10	U.S. 10 Year Yield (%/yr):	5.3
PV/Volume (\$/mcf):	0.87	PV/EBITDA 2001:	4.2

Year	Basic (bcf)	Volume Enhanced (bcf)	Total (bcf)	Price (\$/mcf)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Pre- Tax (\$mm)	Income Tax (\$mm)	Cash Flow (\$mm)	Disc Factor	Present Value (\$mm)
Total 2001 through 2030													
	12256	17846	30102	4.00	120555	23121	12055	20348	65031	12065	52966	0.49	26200
2001	1387	0	1387	5.56	7707	771	771	2158	4008	744	3264	0.97	3160
2002	1234	153	1387	4.37	6061	771	606	1639	3045	565	2480	0.91	2250
2003	1099	288	1387	3.88	5378	771	538	1424	2645	491	2154	0.85	1832
2004	978	409	1387	3.24	4490	771	449	1145	2126	394	1731	0.80	1380
2005	870	517	1387	3.20	4440	771	444	1129	2096	389	1707	0.75	1275
2006	775	612	1387	3.17	4398	771	440	1116	2072	384	1688	0.70	1181
2007	689	698	1387	3.25	4510	771	451	1151	2137	397	1741	0.66	1142
2008	613	774	1387	3.33	4624	771	462	1187	2204	409	1795	0.61	1104
2009	546	841	1387	3.42	4742	771	474	1224	2273	422	1851	0.58	1067
2010	486	901	1387	3.51	4862	771	486	1262	2344	435	1909	0.54	1031
2011	432	955	1387	3.59	4986	771	499	1301	2416	448	1968	0.51	996
2012	385	1002	1387	3.69	5112	771	511	1341	2490	462	2028	0.47	962
2013	343	1044	1387	3.78	5242	771	524	1382	2566	476	2090	0.44	929
2014	305	1082	1387	3.88	5376	771	538	1424	2644	490	2153	0.42	897
2015	271	1116	1387	3.97	5512	771	551	1467	2724	505	2218	0.39	866
2016	242	993	1234	4.08	5030	771	503		3757	697	3060	0.37	1120
2017	215	884	1099	4.18	4591	771	459		3361	624	2737	0.34	939
2018	191	786	978	4.28	4190	771	419		3000	557	2443	0.32	785
2019	170	700	870	4.39	3823	771	382		2670	495	2175	0.30	655
2020	152	623	775	4.51	3489	771	349		2370	440	1930	0.28	545
2021	135	554	689	4.62	3184	771	318		2095	389	1706	0.26	452
2022	120	493	613	4.74	2906	771	291		1845	342	1502	0.25	373
2023	108	439	547	4.86	2658	771	266		1622	301	1321	0.23	307
2024	97	391	488	4.98	2432	771	243		1418	263	1155	0.22	252
2025	88	348	436	5.11	2225	771	222		1232	229	1003	0.20	205
2026	79	310	389	5.24	2035	771	204		1061	197	864	0.19	165
2027	71	276	347	5.37	1862	771	186		905	168	737	0.18	132
2028	64	245	309	5.51	1704	771	170		763	141	621	0.17	104
2029	58	218	276	5.65	1559	771	156		632	117	515	0.16	81
2030	52	194	246	5.79	1426	771	143		513	95	418	0.15	62

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Table XOM-1B
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Present Value Oil and Overseas Natural Gas

Volume Decline (%/yr):	10	Price Escalation post 2006 (%/yr):	1.7
Volume Enhancement (%/yr):	10	Discount rate (%/yr):	6.7
Capex/Cash Flow (%):	35	U.S. TIPS Inflation (%/yr):	1.7
Variable Cost (%):	23	U.S. 10 Year Yield (%/yr):	5.3
PV/Volume (\$/bbl):	3.11	PV/EBITDA 2001:	4.7

Year	Basic (mmb)	Volume Enhanced (mmb)	Total (mmb)	Price (\$/bbl)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Pre-Tax (\$mm)	Income Tax (\$mm)	Cash Flow (\$mm)	Disc Factor	Present Value (\$mm)
Total 2001 through 2030													
	14900	18500	33400	21.70	724866	218606	166719	87937	251604	52514	199090	0.41	103931
2001	1597	0	1597	24.91	39784	8744	9150	7661	14228	2970	11259	0.97	10899
2002	1437	160	1597	21.41	34201	8744	7866	6157	11434	2387	9048	0.91	8209
2003	1294	303	1597	20.14	32165	8744	7398	5608	10415	2174	8241	0.85	7008
2004	1164	433	1597	19.42	31019	8744	7134	5299	9841	2054	7787	0.80	6206
2005	1048	549	1597	19.21	30674	8744	7055	5206	9669	2018	7651	0.75	5714
2006	943	654	1597	19.03	30386	8744	6989	5129	9525	1988	7537	0.70	5276
2007	849	748	1597	19.36	30915	8744	7110	5271	9789	2043	7746	0.66	5082
2008	764	833	1597	19.69	31453	8744	7234	5416	10059	2099	7959	0.61	4894
2009	687	910	1597	20.04	32000	8744	7360	5564	10332	2157	8176	0.58	4711
2010	619	978	1597	20.39	32557	8744	7488	5714	10611	2215	8396	0.54	4535
2011	557	1040	1597	20.74	33124	8744	7618	5866	10895	2274	8621	0.51	4363
2012	501	1096	1597	21.10	33700	8744	7751	6022	11183	2334	8849	0.47	4198
2013	451	1146	1597	21.47	34286	8744	7886	6180	11477	2395	9081	0.44	4037
2014	406	1191	1597	21.84	34883	8744	8023	6340	11775	2458	9317	0.42	3882
2015	365	1232	1597	22.22	35490	8744	8163	6504	12079	2521	9558	0.39	3732
2016	332	1109	1441	22.61	32572	8744	7492		16336	3410	12926	0.37	4731
2017	302	998	1300	23.00	29894	8744	6876		14274	2979	11295	0.34	3874
2018	275	898	1172	23.40	27437	8744	6311		12382	2584	9798	0.32	3150
2019	250	808	1058	23.81	25182	8744	5792		10646	2222	8424	0.30	2538
2020	227	727	954	24.22	23114	8744	5316		9053	1890	7164	0.28	2023
2021	206	655	861	24.64	21215	8744	4879		7591	1584	6007	0.26	1590
2022	187	589	777	25.07	19473	8744	4479		6250	1304	4945	0.25	1226
2023	170	530	701	25.51	17874	8744	4111		5019	1047	3971	0.23	923
2024	155	477	632	25.95	16407	8744	3774		3889	812	3077	0.22	670
2025	141	429	570	26.41	15060	8744	3464		2852	595	2257	0.20	461

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Table XOM-1C
Exxon Mobil Corporation
Present Value Industrial Businesses

Volume Decline (%/yr):	8	Price Escalation (%/yr):	1.4
Volume Enhancement (%/yr):	8	Discount rate (%/yr):	6.7
Capex/Cash Flow (%):	35	U.S. TIPS Inflation (%/yr):	1.7
Variable Cost (%):	46	U.S. 10 Year Yield (%/yr):	5.3

PV/EBITDA 2001: 10.3

Year	Volume in 2001 dollars			Price (\$curr/ \$const)	Revenue (\$mm)	Fixed Cost (\$mm)	Var Cost (\$mm)	Cap Ex (\$mm)	Pre-Tax (\$mm)	Income Tax (\$mm)	Cash Flow (\$mm)	Disc Factor	Present Value (\$mm)
	Basic (\$mm)	Enhanced (\$mm)	Total (\$mm)										
Total 2001 through 2030													
	2257400	2945700	5203200	1.21	6311089	2704800	2903101	220431	482757	136389	346368	0.33	161247
2001	196000	0	196000	1.00	196000	90160	90160	5488	10192	2879	7313	0.97	7079
2002	180320	15680	196000	1.01	198822	90160	91458	6021	11183	3159	8023	0.91	7280
2003	165894	30106	196000	1.03	201685	90160	92775	6563	12188	3443	8744	0.85	7436
2004	152623	43377	196000	1.04	204590	90160	94111	7111	13207	3731	9476	0.80	7552
2005	140413	55587	196000	1.06	207536	90160	95466	7668	14241	4023	10218	0.75	7632
2006	129180	66820	196000	1.07	210524	90160	96841	8233	15290	4320	10970	0.70	7679
2007	118846	77154	196000	1.09	213556	90160	98236	8806	16354	4620	11734	0.66	7698
2008	109338	86662	196000	1.11	216631	90160	99650	9387	17434	4925	12508	0.61	7691
2009	100591	95409	196000	1.12	219751	90160	101085	9977	18528	5235	13294	0.58	7660
2010	92544	103456	196000	1.14	222915	90160	102541	10575	19639	5548	14091	0.54	7610
2011	85140	110860	196000	1.15	226125	90160	104017	11182	20766	5867	14899	0.51	7541
2012	78329	117671	196000	1.17	229381	90160	105515	11797	21909	6190	15719	0.47	7457
2013	72063	123937	196000	1.19	232684	90160	107035	12421	23068	6517	16551	0.44	7358
2014	66298	129702	196000	1.20	236035	90160	108576	13055	24244	6850	17395	0.42	7248
2015	60994	135006	196000	1.22	239434	90160	110140	13697	25437	7187	18251	0.39	7127
2016	56114	139886	196000	1.24	242882	90160	111726	14349	26647	7528	19119	0.37	6997
2017	51625	144375	196000	1.26	246379	90160	113334	15010	27875	7875	20000	0.34	6860
2018	47495	148505	196000	1.28	249927	90160	114966	15680	29120	8227	20893	0.32	6716
2019	43696	152304	196000	1.29	253526	90160	116622	16360	30384	8584	21800	0.30	6568
2020	40200	155800	196000	1.31	257177	90160	118301	17050	31665	8946	22719	0.28	6415
2021	37222	143336	180558	1.33	240327	90160	110550		39616	11193	28424	0.26	7522
2022	34465	131869	166334	1.35	224582	90160	103308		31114	8791	22324	0.25	5537
2023	31912	121320	153232	1.37	209871	90160	96541		23170	6546	16624	0.23	3864
2024	29548	111614	141162	1.39	196124	90160	90217		15747	4449	11298	0.22	2461
2025	27359	102685	130044	1.41	183279	90160	84308		8811	2489	6322	0.20	1291
2026	25333	94470	119803	1.43	171277	90160	78787		2329	658	1671	0.19	320
2027	23456	86913	110369	1.45	160061	90160	73628		-3727	-1053	-2674	0.18	-480
2028	21719	79960	101678	1.47	149581	90160	68807		-9386	-2652	-6734	0.17	-1132
2029	20110	73563	93673	1.49	139789	90160	64303		-14674	-4146	-10528	0.16	-1658
2030	18620	67678	86298	1.51	130638	90160	60093		-19616	-5542	-14074	0.15	-2078

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Table XOM-2
Exxon Mobil Corporation
Income Model

		<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>
		1999	3/31/00	6/30/00	9/30/00	12/31/00	2000	3/31/01	6/30/01	9/30/01	12/31/01	2001E
Highlights												
Revenue (\$mm)	DP	185,527	55,081	55,956	58,852	64,132	232,737	59,223	58,213	57,872	57,585	232,893
Ebitda (\$mm)	E	24,147	8,988	9,918	10,090	12,208	41,203	11,702	10,920	10,663	10,449	43,735
Cash Flow (\$mm)	E	21,651	7,840	8,184	8,353	10,108	34,484	9,838	9,174	8,956	8,774	36,742
Per share (\$)	E	6.15	2.23	2.32	2.37	2.88	9.80	2.80	2.61	2.55	2.49	10.45
Net Income (\$mm)	DP	8,339	3,350	4,150	4,290	5,120	16,910	4,821	4,358	4,206	4,079	17,465
Per share (\$)	DP	2.38	0.95	1.18	1.22	1.46	4.81	1.37	1.24	1.20	1.16	4.97
Shares (millions)	DP	3,520	3,522	3,524	3,521	3,514	3,517	3,517	3,517	3,517	3,517	3,517
Volume												
Natural gas (bcf)												
U.S.	E	1,051	274	257	264	252	1,047	261	264	267	267	1,059
Canada	E	249	69	76	79	85	309	81	82	83	83	329
Overseas	E	2,473	765	508	458	699	2,430	603	610	616	616	2,446
Total	E	3,773	1,109	841	801	1,035	3,786	945	956	966	966	3,833
Natural Gas (mmcf)												
U.S.	DP	2,879	3,015	2,821	2,867	2,740	2,860	2,900	2,900	2,900	2,900	2,900
Canada	DP	683	763	835	857	919	844	900	900	900	900	900
Overseas	E	6,776	8,407	5,582	4,982	7,593	6,639	6,700	6,700	6,700	6,700	6,700
Total	DP	10,338	12,185	9,238	8,706	11,252	10,343	10,500	10,500	10,500	10,500	10,500
Days	E	365	91	91	92	92	366	90	91	92	92	365
Oil (mmb)	E	919	233	228	229	239	929	229	231	234	234	927
Oil (mbd)	DP	2,518	2,562	2,504	2,486	2,600	2,538	2,540	2,540	2,540	2,540	2,540
Total gas & oil (bcf)	E	9,288	2,508	2,208	2,173	2,470	9,359	2,317	2,342	2,368	2,368	9,395
Price												
Natural gas (\$/mcf)												
Henry Hub (\$/mmbtu)	E	2.24	2.62	3.63	4.48	6.52	4.31	7.49	5.81	5.69	5.74	6.18
U.S.	E	2.02	2.36	3.27	4.03	5.86	3.85	6.74	5.23	5.12	5.16	5.56
Canada	E	2.02	2.36	3.27	4.03	5.86	3.97	6.74	5.23	5.12	5.16	5.56
Overseas	E	1.73	2.60	2.59	2.84	2.88	2.72	2.74	2.53	2.40	2.30	2.49
Total	E	1.83	2.52	2.86	3.35	3.85	3.14	4.19	3.51	3.38	3.33	3.60
Oil (\$/bbl)												
WTI Cushing	E	19.24	28.84	28.79	31.61	32.00	30.31	30.45	28.16	26.65	25.51	27.69
Worldwide	E	17.32	25.95	25.91	28.45	28.80	27.29	27.41	25.35	23.99	22.96	24.91
Total gas & oil (\$/mcf)	E	19.98	21.96	25.34	27.08	25.96	24.87	25.56	24.85	24.44	24.32	24.79
Revenue (\$mm)												
Natural Gas												
U.S.	E	2,122	647	839	1,063	1,478	4,028	1,759	1,380	1,365	1,377	5,882
Canada	E	503	164	248	318	496	1,226	546	428	424	427	1,825
Overseas	E	4,283	1,986	1,316	1,304	2,012	6,618	1,653	1,545	1,478	1,415	6,092
Total	E	6,909	2,797	2,403	2,685	3,986	11,871	3,957	3,354	3,267	3,220	13,799
Oil	E	15,915	6,051	5,905	6,506	6,889	25,351	6,266	5,859	5,605	5,365	23,094
Other	E	162,703	46,233	47,648	49,662	53,256	195,515	49,000	49,000	49,000	49,000	196,000
Total	DP	185,527	55,081	55,956	58,852	64,132	232,737	59,223	58,213	57,872	57,585	232,893
Cost (\$mm)	E	161,380	46,093	46,038	48,762	51,924	192,818	47,521	47,293	47,209	47,136	189,158
Ebitda (\$mm)												
North American NatGas	E	1,785	600	891	897	1,441	3,830	1,844	1,447	1,431	1,444	6,166
Oil and Overseas Gas	E	13,669	5,937	5,897	5,073	6,197	23,104	5,939	5,553	5,312	5,085	21,890
Industrial Businesses	E	8,693	2,450	3,129	4,120	4,570	14,269	3,920	3,920	3,920	3,920	15,680
Total	E	24,147	8,988	9,918	10,090	12,208	41,203	11,702	10,920	10,663	10,449	43,735
Interest	DQ	695	174	126	108	100	508	100	100	100	100	400
Current income tax	DQ	1,801	974	1,608	1,629	2,000	6,211	1,764	1,646	1,607	1,575	6,593
Cash flow (\$mm)	E	21,651	7,840	8,184	8,353	10,108	34,484	9,838	9,174	8,956	8,774	36,742
Exploration	DQ	1,246	210	166	235	200	811	200	200	200	200	800
Deprec., Deplet., & Amort.	DQ	8,304	2,128	1,939	1,901	2,400	8,368	2,400	2,400	2,400	2,400	9,600
Other non cash	E	2,282	885	831	919	1,088	3,722	1,057	986	963	944	3,951
Income before deferred tax	E	9,819	4,617	5,248	5,298	6,420	21,583	6,181	5,587	5,393	5,230	22,392
Deferred income tax	E	1,439	1,267	1,098	1,008	1,300	4,673	1,360	1,229	1,186	1,151	4,926
Net Income (\$mm)												
North American NatGas	E	893	330	535	583	1,009	2,457	1,291	1,013	1,002	1,011	4,316
Oil and Overseas Gas	E	4,874	2,424	2,230	2,517	2,741	9,912	2,627	2,456	2,350	2,249	9,683
Industrial Businesses	E	3,127	808	1,487	1,305	1,530	5,130	1,100	1,100	1,100	1,100	4,400
Unallocated	DP	(514)	(212)	(102)	(115)	(160)	(589)	(196)	(211)	(245)	(281)	(933)
Total	DP	8,380	3,350	4,150	4,290	5,120	16,910	4,821	4,358	4,206	4,079	17,465

DP = Disclosed in quarterly press release, DQ = Disclosed in quarterly regulatory filing, E = Estimated

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