



Independent Stock Idea

July 29, 2010

rating: contrarian buy
s&p 500: 1102

Exxon Mobil Corporation (XOM) Downstream Profits Restored

| | | | |
|---|----------------|--|--------|
| <i>Symbol</i> | XOM | <i>Ebitda Next Twelve Months ending 6/30/11 (US\$mm)</i> | 63,900 |
| <i>Rating</i> | Contrarian Buy | <i>North American Natural Gas/Ebitda (%)</i> | 8 |
| <i>Price (\$/sh)</i> | 60.34 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 81 |
| <i>Pricing Date</i> | 7/29/10 | <i>Adjusted Reserves/Production NTM</i> | 13.2 |
| <i>Shares (mm)</i> | 5141 | <i>EV/Ebitda</i> | 5.8 |
| <i>Market Capitalization (\$mm)</i> | 310,000 | <i>PV/Ebitda</i> | 8.1 |
| <i>Debt (\$mm)</i> | 62,000 | <i>Undeveloped Reserves (%)</i> | 37 |
| <i>Enterprise Value (EV) (\$mm)</i> | 372,000 | <i>Natural Gas and Oil Ebitda (\$/boe)</i> | 31.50 |
| <i>Present Value (PV) (\$mm)</i> | 520,000 | <i>Present Value Proven Reserves(\$/boe)</i> | 15.70 |
| <i>Net Present Value (\$/share)</i> | 89 | <i>Present Value Proven Reserves(\$/mcf)</i> | 2.60 |
| <i>Debt/Present Value</i> | 0.12 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 5.70 |
| <i>McDep Ratio - EV/PV</i> | 0.72 | <i>Price/Earnings Next Twelve Months</i> | 11 |
| <i>Dividend Yield (%/year)</i> | 2.9 | <i>Indicated Annual Dividend (US\$/sh)</i> | 1.76 |
| Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas. | | | |
| 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 analysis of XOM since 2001 see www.mcdep.com/1xom.htm | | | |

Summary and Recommendation

We recommend the common stock of **ExxonMobil (XOM)** as a Contrarian Buy with unlevered appreciation potential of 40% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$89 a share. Second quarter results released today displayed a reassuring recovery in downstream oil and chemical profits (see table Next Twelve Months Operating and Financial Estimates). The most distinctive advantage XOM has over its integrated oil industry peers is greater concentration on natural gas, the most rapidly growing large scale energy source, at 29% of NPV (see table Functional Cash Flow and Present Value). Interrupted by the issuance of shares in the acquisition of XTO Energy, aggressive stock repurchases resume at the rate of \$3 billion for the current quarter in addition to the cash dividend of \$2.2 billion a quarter. Essentially, a dividend yield of 2.9% a year doubles to a combined distribution yield of more than 6%. At the same time, the low financial risk implied by XOM's minimal use of corporate debt means investors can own more XOM stock than that of more leveraged alternatives for the same risk to the investor. On the negative side, U.S. political leadership has been outspoken about intending to increase taxes on XOM and other successful companies. That may be contributing to a downward trend in stock prices and oil and gas prices with current quotes below 200-day or 40-week averages (see chart Six-Year Commodity Price Meter). We are hopeful that the downtrend reverses with U.S. elections approaching in the fall.

Kurt H. Wulff, CFA



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| Exxon Mobil Corporation | | | | | | | | | | |
|--|---------|---------|---------|---------|----------|----------------|---------|---------|----------------|--|
| Next Twelve Months Operating and Financial Estimates | | | | | | | | | | |
| | Q2 | Q1 | Q2 | Q3E | Q4E | Year | Q1E | Q2E | Next | |
| | 6/30/09 | 3/31/10 | 6/30/10 | 9/30/10 | 12/31/10 | 2010E | 3/31/11 | 6/30/11 | Twelve Months | |
| | | | | | | | | | 6/30/11 | |
| Volume | | | | | | | | | | |
| Natural Gas (mmcf) | | | | | | | | | | |
| North America | 1,892 | 1,903 | 2,006 | 4,327 | 4,327 | 3,151 | 4,327 | 4,327 | 4,327 | |
| Overseas | 6,121 | 9,786 | 8,019 | 6,223 | 8,778 | 8,193 | 9,786 | 8,019 | 8,193 | |
| Total | 8,013 | 11,689 | 10,025 | 10,550 | 13,105 | 11,344 | 14,113 | 12,346 | 12,520 | |
| Oil (mbd) | 2,347 | 2,414 | 2,325 | 2,423 | 2,423 | 2,396 | 2,423 | 2,423 | 2,423 | |
| Total gas & oil (mmb) | 335 | 393 | 364 | 385 | 424 | 1,565 | 430 | 408 | 1,646 | |
| Total gas & oil (mbd) | 3,683 | 4,362 | 3,996 | 4,181 | 4,607 | 4,287 | 4,775 | 4,481 | 4,510 | |
| Price | | | | | | | | | | |
| Natural gas (\$/mcf) | | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 3.50 | 5.32 | 4.09 | 4.64 | 4.86 | 4.73 | 5.16 | 5.00 | 4.92 | |
| U.S. | 3.14 | 5.32 | 4.11 | 4.66 | 4.89 | 4.75 | 5.16 | 5.00 | 4.93 | |
| International | 5.36 | 6.45 | 5.83 | 6.61 | 6.93 | 6.46 | 6.62 | 6.42 | 6.65 | |
| Total | 4.84 | 6.27 | 5.49 | 5.81 | 6.25 | 5.98 | 6.17 | 5.92 | 6.06 | |
| Oil (\$/bbl) | | | | | | | | | | |
| WTI Cushing | 59.52 | 78.67 | 77.85 | 78.14 | 79.81 | 78.62 | 81.10 | 82.34 | 80.35 | |
| Worldwide | 56.63 | 74.01 | 74.92 | 75.20 | 76.80 | 75.24 | 78.04 | 79.23 | 77.31 | |
| Total gas & oil (\$/bbl) | 46.62 | 57.75 | 57.35 | 58.24 | 58.18 | 57.89 | 57.85 | 59.17 | 58.35 | |
| NY Harbor 3-2-1 (\$/bbl) | 9.49 | 7.15 | 12.13 | 9.54 | 5.98 | 8.70 | 6.71 | 10.07 | 8.08 | |
| Revenue (\$mm) | | | | | | | | | | |
| Natural Gas | | | | | | | | | | |
| U.S. | 541 | 911 | 750 | 1,856 | 1,945 | 5,462 | 2,010 | 1,970 | 7,781 | |
| International | 2,986 | 5,681 | 4,254 | 3,786 | 5,596 | 19,317 | 5,833 | 4,684 | 19,898 | |
| Total | 3,526 | 6,592 | 5,005 | 5,641 | 7,541 | 24,778 | 7,843 | 6,654 | 27,679 | |
| Oil | 12,095 | 16,079 | 15,850 | 16,762 | 17,120 | 65,812 | 17,019 | 17,470 | 68,371 | |
| Other | 58,835 | 67,580 | 71,631 | 71,631 | 71,631 | 282,473 | 71,631 | 71,631 | 286,524 | |
| Total | 74,457 | 90,251 | 92,486 | 94,034 | 96,292 | 373,064 | 96,493 | 95,755 | 382,575 | |
| Expense (\$mm) | | | | | | | | | | |
| Production | 7,592 | 11,464 | 10,266 | 10,306 | 11,344 | 43,379 | 11,436 | 11,097 | 44,183 | |
| Other | 56,732 | 64,781 | 66,830 | 68,431 | 68,731 | 268,773 | 68,931 | 68,431 | 274,524 | |
| Ebitda (\$mm) | | | | | | | | | | |
| Exploration and Production | 8,030 | 11,208 | 10,589 | 12,098 | 13,317 | 47,211 | 13,425 | 13,027 | 51,867 | |
| Other | 2,103 | 2,798 | 4,802 | 3,200 | 2,900 | 13,700 | 2,700 | 3,200 | 12,000 | |
| Total Ebitda | 10,133 | 14,006 | 15,391 | 15,298 | 16,217 | 60,911 | 16,125 | 16,227 | 63,867 | |
| Exploration | 491 | 689 | 415 | 415 | 415 | 1,934 | 698 | 698 | 2,226 | |
| Deprec., Deplet., & Amort. | 3,004 | 3,280 | 3,280 | 3,989 | 3,989 | 14,538 | 3,989 | 3,989 | 15,956 | |
| Ebit (\$mm) | | | | | | | | | | |
| Interest | 343 | 55 | 55 | 155 | 155 | 420 | 155 | 155 | 620 | |
| Ebt (\$mm) | | | | | | | | | | |
| Income Tax | 2,203 | 3,494 | 4,074 | 3,759 | 4,080 | 15,407 | 3,949 | 3,985 | 15,773 | |
| Net Income (\$mm) | | | | | | | | | | |
| Exploration and Production | 3,812 | 5,814 | 5,336 | | | | | | | |
| Other | 879 | 1,286 | 2,588 | | | | | | | |
| Unallocated | (599) | (612) | (358) | | | | | | | |
| Total | 4,092 | 6,488 | 7,566 | 6,980 | 7,578 | 28,613 | 7,334 | 7,400 | 29,292 | |
| Shares (millions) | | | | | | | | | | |
| Per share (\$) | 0.84 | 1.37 | 1.60 | 1.36 | 1.47 | 5.80 | 1.43 | 1.44 | 5.70 | |
| Ebitda Margin (E&P) | 51% | 49% | 51% | 54% | 54% | 52% | 54% | 54% | 54% | |
| Tax Rate | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | |
| Dividend | | | | | | | | | | |
| | 0.42 | 0.42 | 0.44 | 0.44 | 0.44 | 1.74 | 0.44 | 0.44 | 1.76 | |

Please see disclosures on the final page.

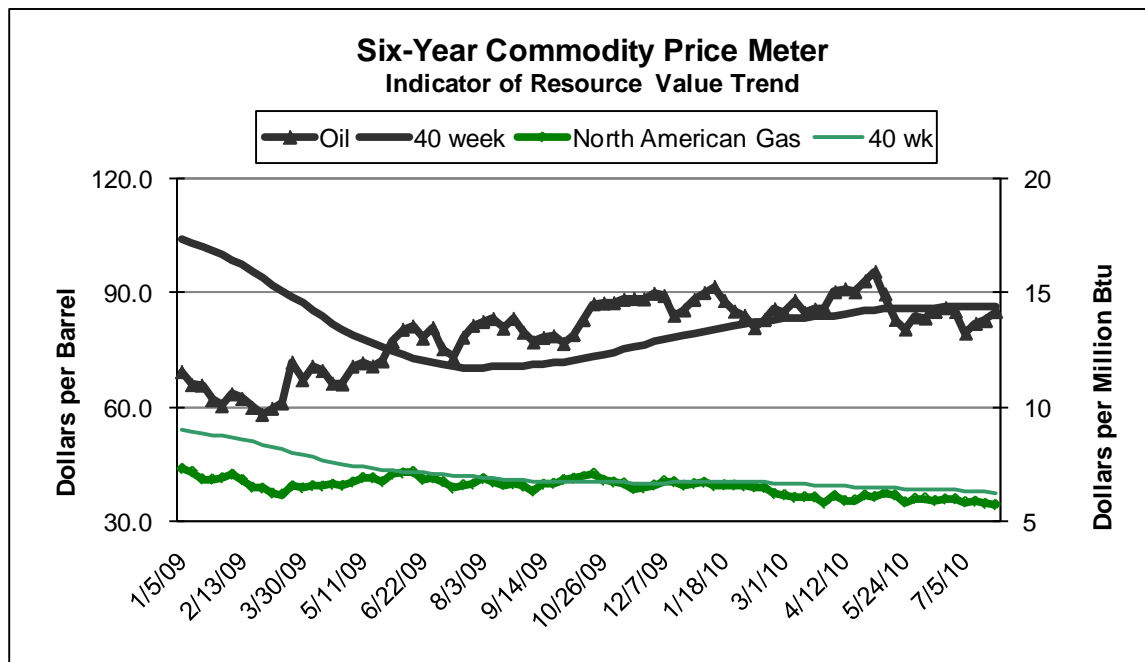
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| Exxon Mobil Corporation | | | | | |
|---|---------------|-----------------|---------------|----------------|---------|
| Functional Cash Flow and Present Value | | | | | |
| | <i>NTM</i> | <i>Adjusted</i> | <i>PV/</i> | <i>Present</i> | |
| | <i>Ebitda</i> | <i>R/P</i> | <i>Ebitda</i> | <i>Value</i> | |
| North American Natural Gas | 4,200 | 11.6 | 12.4 | 52,000 | 10% |
| Rest of World Natural Gas | 10,750 | 15.9 | 9.3 | 100,000 | 19% |
| Oil | 36,920 | 11.0 | 7.5 | 278,000 | 53% |
| Downstream | 12,000 | | 7.5 | 90,000 | 17% |
| | 63,870 | 13.2 | 8.1 | 520,000 | 100% |
| Debt | | | | | 62,000 |
| Net Present Value (\$mm) | | | | | 458,000 |
| Shares | | | | | 5,141 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 89 |
| NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh) | | | | | 89 |





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